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C O N F I D E N T I A L SECTION 01 OF 03 TEL AVIV 001013

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SUBJECT: ISRAELIS BRIEF U/S LEVEY ON TERROR FINANCE STEPS

AGAINST HAMAS AND HIZBALLAH AND VIEWS ON PA WELFARE REFORM

Classified By: Political Counselor Norm Olsen; Reasons: 1.4 (B) and (D)

¶1. (C) SUMMARY: Israeli National Security Council Counterterrorism Director General Danny Ardit met with Treasury U/S Stuart Levey and his delegation on February 14 in Ramat Hasharon, near Tel Aviv. Ardit said that the GOI has recently switched the focus of its terrorism finance efforts from Hamas to Hizballah. He suggested that heightening the international community's awareness of Hizballah's criminal activities could help convince other governments to avoid ideological debates and focus on combating the group's illegal activities. His staff provided information on a number of financial institutions and charities that they said provide funding to Hamas and Hizballah. The Israelis described their goals of weakening support for Hamas among the Palestinian population and strengthening the PA's welfare infrastructure through the creation of a mechanism to transfer charity money to the territories and provide basic welfare for the poor. The NSC Legal Advisor briefed the group on Israel's new terrorism finance law. END SUMMARY.

¶2. (SBU) During his briefing for the USDEL, Brigadier General Danny Ardit was joined by his Deputy for International Coordination Amnon Zehavi, Advisor for Terrorism Finance Lt. Col. Udi Levi, Advisor for Intelligence Uzi Shaya, NSA Legal Advisor Roy Dick, Israeli Embassy officer Eynat Shlien, Advisor for Intelligence Lt. Col. Amon Prodik, and a military staffer. Treasury U/S for Enforcement and Head of the Office of Terrorism and Financial Intelligence Stuart Levey was accompanied by Senior Advisor Adam Szubin, DAS Daniel Glaser, Senior Advisor Anne Wallwork, Public Affairs Specialist Molly Millerwise, IRS Senior Analyst Mark Weber, USSS Agent Jacqueline Marengo, USSS Agent Scott Salo, and Embassy notetaker.

Terrorism Finance: Shifting Focus from Hamas to Hizballah

¶3. (C) Ardit listed the Counterterrorism Financing Bureau's (CTFB) top four targets as Palestinian extremists (primarily Hamas and Palestinian Islamic Jihad), Palestinian Authority factions supporting terrorism, Hizballah, and global "jihadist" groups. He noted that until recently the GOI's focus had been on Hamas. Now that Israel has a better grasp of Hamas activities, he said, the GOI has shifted its sights to Hizballah. U/S Levey noted that Hizballah is a high priority for the USG and asked if the PA is cooperating with efforts to curb the group. Ardit replied that such cooperation is "possible," but that it is "a little too early" to expect PA assistance. Levi expressed his view that the EU would designate Hizballah as a terrorist organization if Abu Mazen would quietly support the move.

¶4. (C) Addressing the Hamas problem, Levi claimed that more than half of the group's funding had formerly come from Saudi Arabia, but Riyadh's decision to cut the flow of unregulated NGO funds to the territories has "caused real damage" to Hamas finances. Ardit added that international efforts have "weakened the Hamas grip on the Palestinian public." Levi said that Hamas still receives USD 2-3 million a year from Iran through Damascus or the Sederat Bank in Lebanon, as well as additional funding from charities in the west, commercial activities, and individuals in the Gulf states, primarily Kuwaitis and Qataris channeling money through the UAE. He claimed that this funding enters the West Bank and Gaza through money changers and couriers. He said that Hamas formerly used the banking system as well, but this channel had been cut after U.S. lawyers filed suit against the Arab Bank.

¶5. (C) Levi estimated that Iran provides USD 70-90 million of Hizballah's annual budget, mostly through the Sederat Bank, while the rest of the funding stems largely from criminal activities such as counterfeiting and drugs. Ardit suggested that increasing the international community's awareness of Hizballah's criminal activities could help to convince other governments to avoid ideological debates and focus on combating the group's illegal activities. U/S Levey and Glaser replied that Saudi Arabia is using a similar tactic to gain domestic support for its fight against Al-Qaeda.

16. (C) Levi charged that at least two banks (the Lebanese-Canadian Bank and the Societe Generale de Banque au Liban) are "connected directly to the financial infrastructure of Hizballah." In addition, he said, a Bank of America branch in the tri-border area of South America is handling Hizballah funds. Shaya added that the Chavez government is allowing Hizballah to operate in Venezuela. Levi claimed that several NGOs in the United States are also supporting Hizballah and asked for them to be included on the USG lists of organizations that finance terrorism. He agreed to provide further details on the banks and NGOs during the next terrorism finance meeting in Washington.

17. (C) Levi called INTERPAL and other European groups that channel funds to Hamas "a problem we do not know how to solve," but added that lawsuits similar to the ones filed against the Arab Bank might help. He suggested that another option to restrict funding would be to prevent INTERPAL from clearing dollar donations through New York. U/S Levey requested additional information on INTERPAL to share with London and details of the bank transfers in the United States.

18. (C) U/S Levey queried the Israelis about specifics of the Arab Bank's involvement with terrorism finance. Levi said the bank had stopped all transactions to the territories after it was sued in U.S. court. He cautioned, however, that the bank is "playing with evidence, cleaning the records, and deleting accounts" to cover its tracks. Shaya said that the GOI has unspecified proof that the Arab Bank is still dealing with Hizballah in Lebanon. Arditu noted the need for caution in dealing with the Arab Bank, reiterating the importance of its continued operation to the economies of Jordan and the territories.

Social Security: Beating Hamas at its Own Game

19. (C) Prodik said Israel aims to weaken support for Hamas among the Palestinian population, strengthening the PA's welfare infrastructure, and increase support for Abu Mazen and Finance Minister Salam Fayyad. Cautioning that the PA welfare system is "currently not working," he advocated the creation of a mechanism to supplant Hamas as a means of transferring charity money to the territories, with PA oversight through the Religious Affairs Committee, or Waqf.

10. (C) Prodik also addressed the need for the PA to strengthen its role vis-a-vis Hamas by establishing a national insurance system and assisting the poor. He asked that the international community finance "at least part" of the PA's welfare projects in order to justify external monitoring and auditing. Using data from the Palestinian Central Bureau of Statistics, Prodik claimed that total direct humanitarian assistance equals approximately 51 million USD per year.

11. (C) Noting that current welfare recipients include families of imprisoned and deceased terrorists, U/S Levey requested GOI views on how destitute individuals would be chosen. Levi replied that the PA could pay all "needy" families, regardless of what caused their situation. He stressed, however, that Israel would strongly oppose adding new families of "martyrs" to the welfare rolls once the program is underway.

12. (C) U/S Levey asked what steps the USG could take to support these goals. He noted that the USG is considering similar ideas, as well as alternative channels for private donations, but wants to adapt USG thinking to the situation on the ground. Arditu commented "we won't be able to do it without American involvement -- neither us nor the Palestinians." Prodik said that coordinating donors and ensuring external auditing/monitoring would be the most helpful roles for the USG. U/S Levey asked if the GOI had shared its thoughts with the PA. Levi replied that only the welfare idea had been raised; Arditu added that it is "premature" to share other thoughts at this time.

New Israeli Terrorism Finance Law Closes Gaps

13. (C) Dick briefed the group on Israel's new terrorism finance law. He said that the law supplements existing legislation by closing two important gaps: it allows the GOI to designate individuals, not just groups, as "terrorist activists," and permits designation of individuals and groups even if not specifically linked to terrorism in Israel. He said the legislation's safeguards allow for judicial review, reconsideration of designees after four years, and the ability of the oversight committee to remove names from the list. Dick urged the USG to submit names for inclusion on the designation list once the new law enters into force in June 2005.

14. (U) Undersecretary Levey has cleared this message.

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